

Bulletin:

Taiwan Hon Chuan Enterprise Co. Ltd.'s Air-Pollution Incident Has Minimal Credit Impact

October 7, 2019

Taiwan Ratings Corp. today said today that the financial burden of fines and upgrade costs related to its air pollution controls has no impact on our ratings and outlook on **Taiwan Hon Chuan Enterprise Co. Ltd.** (twA-/Stable/twA-2). We have already incorporated the potential full cost of fines related to the company's air pollution incident in 2018 in our base-case scenario. We believe the incident will not significantly weaken Hon Chuan's credit ratios, given the company's sufficient operating cash flow amid its growing business scale.

In September 2018, the Taichung Environment Protection Bureau found that Hon Chuan had submitted inaccurate air-pollution readings based on its own equipment, which did not meet the requirement of local regulations. The bureau also found that the company's standard operating procedures could not guarantee its submission of the correct air-pollution control fee in line with the updated regulation. Hon Chuan paid fines of about NT\$20 million in 2018 and NT\$203 million in 2019 for the deficiency in its air-pollution control fee. Hon Chuan has spent about NT\$100 million to upgrade its air-pollution prevention equipment and facilities. We believe the company has sufficient operating cash flow to absorb this capital expenditure along with the fines related to the air pollution incident, which totaled about NT\$300 million cash outflow in 2019.

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